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## FUNCTIONAL INDUSTRIAL RELATIONSHIPS AND THE WAGE RATE

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Social theory is the outgrowth of the attempt on the part of man to discover rules of action in his social environment which will aid him in his efforts to direct the course of social progress. In his search for these rules he has available two sources, the record of past experience and the analysis of the present social organization. During the past two centuries social conditions have changed so rapidly that the experience of the past loses much of its significance and the interpretation of the present is scarcely completed before new conditions invalidate the conclusions reached. But social theory once accepted by the popular mind persists as a basis of social control and thus becomes a source of maladjustment in social relations. For this reason in many cases the attempts of men consciously to direct the course of human progress have defeated their own ends.

One theory, widely accepted among modern economists, which must be classed among the results of an earlier environment, is the productivity theory of wages. This theory in brief is that in the industrial system the tendency is for each producing agent to receive from society the equivalent of what it has produced. In some standard texts the tendency is manifest to relate productivity to the efficiency of the wage earner, and thus to fix upon the individual producer the ultimate responsibility for wages received. An excellent statement of this point of view is to be found in Professor Seligman's text on economics:

Since the ultimate factor of the relation between labor and cost is productive efficiency, the problem of increasing the efficiency of labor is of paramount importance" (*Principles of Economics*, p. 289).

Again, in comparing the efficiency of different men and the value of their labor, the statement is made:

A modern railway president of an industrial trust often receives a salary equal to that of several hundred of his workmen, and larger than that of the President of the United States. The work may not be as irksome as that of the day-laborer, but it may be worth far more to society, because its contribution to the product is so much greater. The real value of labor depends not upon condition of employment, but upon the results of activity" (*ibid.*, p. 286).

In another place the author states:

Labor, therefore, has a value because its services or products have value. Labor secures a remuneration because it produces something for which people are willing to pay; in other words, wages depend on productivity" (*ibid.*, p. 417).

In the first quotation we are told that "efficiency of labor is of paramount importance." In the last two, that value of labor or wages depend on productivity or results of activity. The thought underlying current economic theory, then, is that the workman tends to receive the amount he produces and that he is accordingly under normal conditions personally responsible for the amount he receives.

This principle became the controlling one at a time when mediaeval institutions were being broken by the growth of industry; when economic opportunities offered much greater hope to the ambitious workman of becoming an independent producer; when Adam Smith and the Physiocrats, seeing the advantages of individual initiative, taught freedom of industry and external trade; and when later, Ricardo, in full harmony with the industrial conditions of his time, conceived the "economic man" with the one motive of wealth acquisition in an environment of free competition and acting under the impulse of enlightened self-interest. A theory of personal responsibility for economic success was the logical outgrowth of that transitional period when old bonds were breaking and when new standards of social and economic control had not yet been formed. It has been developed and perfected by later writers in the very midst of movements destined to undermine its utility as a safe principle for the guidance of statesmen.

The theoretical statement of this idea has its concomitant in popular thought well expressed in the following quotation from a journal devoted to the advancement of commercial education:

Do not be discouraged, young man, because you are poor and unknown today. That is no reason why you must always remain so. Many men who have obtained positions of the greatest prominence, and who have acquired the greatest fortunes, and achieved the greatest victories, began poorer and more obscure than you are. Columbus was the son of a weaver and a weaver himself; Homer was a farmer's son; Demosthenes was the son of a cutler; Oliver Cromwell was the son of a London brewer; Daniel Defoe was a hostler and the son of a butcher; Whitfield was the son of an inn-keeper; Virgil was the son of a porter; Horace was the son of a shopkeeper; Robert Burns was a plowman in Ayrshire; Napoleon was the son of a poor Corsican; John Jacob Astor once sold apples on the streets of New York; Cincinnatus was plowing in his vineyards when the dictatorship of Rome was offered him; Elihu Burritt was a blacksmith; Abraham Lincoln was a rail splitter; Ulysses S. Grant was a tanner.

Such are the sentiments that once prevailed and that are still passing without question among many. Both the popular thought and the scientific statement result from looking at life from the point of view of individual advancement and individual responsibility. That "man is the architect of his own fortunes" is the popular belief; and the tendency is to hold the individual personally responsible for economic failure, and to give credit exclusively to the one who achieves success in the accumulation of a fortune. Popular thought, as well as economic theory, has lagged behind the transition from primitive individual or family economy to modern social economy, and the result is that necessary readjustments are delayed.

The above quotations fail to take into account the functional nature of the modern social process. The co-ordination represented by the industrial system is a co-ordination of services to be rendered rather than a co-ordination of persons. The individual, of course, must render the service, but it is the perfect correlation of given services in the system that is sought rather than a correlation of persons. In this functional relationship there are positions of large responsibility offering large opportunities for the production of social values. These positions are dependent upon positions requiring less effort and offering less opportunity for production. Persons are to some extent interchangeable; functions are not. The president of an organization may for several days do the work of a day-laborer. But if he continues in the latter position he will

not long draw the salary of a president. In the lower and in many of the higher positions in industrial life functions do not remain long unfilled. The person is soon forgotten as the industrial organization runs smoothly along, but the function remains and someone steps quickly into the vacancy.

A few illustrations will make clearer the point in mind. The United States Census for 1900<sup>1</sup> shows that in the combined textile industries of the United States, there were 44,502 salaried officials, clerks, etc., and 1,029,910 wage earners. This represents a total of over 23 times as many in the second group as in the first. The average annual income of the smaller group per person was \$1,123.00, while the average income of the larger group was only \$332.00, or less than one-ninth of the larger. These averages show further that many low-paid clerks were employed whose wages balanced the high pay of the few managers in the first group, and that the wage-earning group must have had a similar differentiation of productive employment. The figures for 1890 show a similar disparity in productive possibilities in the same industrial group. Other industries reported show like results. In 1900 the flour-milling industry had 5,790 of the first class and 37,073 of the second; slaughtering and meat packing wholesale, 9,658 of the first class and 64,783 of the second; boot and shoe manufactures, 7,843 of the first and 142,922 of the second. These figures indicate that the proportion of positions of low possible relative productivity in the industrial system is very much larger than the positions of high productive possibility.

This principle of necessary proportion or functional relation between positions of low-grade and high-grade productive possibility may be still further illustrated. During the last few years the country has witnessed a period of growing business activity. New factories have been built, new railways have been projected, new mines opened, new farming projects considered. Each of these projects has resulted in the creation of a few positions of large responsibility and of large possibilities of production. But the creation of these few positions was possible only because they were accompanied by many positions involving less demand upon those

<sup>1</sup> Vol. VII, 470.

filling them, and consequently requiring a lower grade of efficiency. In a period of industrial expansion many productive enterprises are delayed because it is impossible to secure men to fill the large number of positions of low productivity created. According to investigations of the United States Bureau of Labor (*Bulletin* 72, p. 424), during the seven months ending October, 1906, employers of labor made application to one New York agency for 37,058 men, 32,749 of whom were needed for railroad construction. In response to this demand only 3,705 could be sent out. Other agencies reported similar difficulty in supplying the demand. For the same year one railway reported 41 per cent increase in construction and truck gangs, and could have employed 53 per cent more, had the laborers been available. Another railway reported 44 per cent increase and desired 56 per cent more. This demand did not, however, result in a corresponding increase in the wage rate. The nature of the work required, when considered in relation to the social utility of the product, was such that any large increase in the rate would have been impossible. These illustrations may be considered too well known to be worth taking account of, but the fact remains that the functional relationship which makes these differences in wage rates possible has not been adequately considered by economists.

The functional point of view requires a different attitude toward many matters of public interest. The significance of vocational training and the basis for it are indicated by the understanding of functional relationships. Miss Sumner, in her discussion of industrial education (Adams and Sumner, *Labor Problems*, p. 458), closes with these words:

In conclusion, it should be pointed out that the need of the day is for greater skill instead of less, and this need will inevitably increase in the future. As industry becomes more and more highly specialized and systematically organized, the laboring classes must more and more follow the example of the professional classes and learn to work before they apply for employment. The day of mere muscle in industry has passed and the day of mind, with skill of eye and hand, has dawned.

In this quotation there is a failure to recognize that specialization has in many parts of the industrial system brought simplification of the process and a consequent lessening of need for long

term apprenticeship. The skilled man, trained to do well all the parts of the constructive process, gives way to the semi-skilled and the unskilled, the machine feeders and the performers of operations that require a minimum of skill of eye and hand. It is true that in some places greater skill is required, but this requirement affects the initiator and the positions of directive responsibility. Scientific management is accused of taking from the wage earner the little need of personal initiative that he once had and used, though imperfectly, to some extent.

Moreover, the functional nature of the productive process precludes the hope of ever equalizing returns of men through the education of the masses, unless the productivity theory of wages is radically modified. Neither does it offer hope of increasing the returns of any particular class without increasing in proportional manner the returns of every other group. Four years of college research in the history and technique of handling a spade would not materially increase the efficiency of the section hand. Productive efficiency can be increased only up to the functional possibilities of the occupation at which the person is engaged, and from the point of view of that particular occupation, any education for efficiency greater than this is wasted. The hope of increasing the returns of any occupation, beyond the limited amount which might result from bringing personal efficiency into harmony with functional standards, lies in such an increase in social production as will result in a larger return to every agent in the industrial system. This would prevent any equalization of return by means of universal vocational training.

This view of the situation also indicates that the social justification for popular industrial education lies not in the possibility of raising every workman to the more remunerative positions, such as foreman, superintendent, or the skilled positions, but in the right of every citizen to be given the opportunity to prepare to compete for these positions, and in the value to the state of giving potential ability the opportunity of finding its proper place in the positions of larger productive possibilities.

The tendency in many parts of the industrial system toward the displacement of the function demanding skilled labor by semi-

skilled indicates that common-school education must continue to emphasize to a large degree "cultural" training. Curricula should be modified to include more of those disciplines which give the prospective citizen an appreciation of the civic and social life of which he is to be a part, and for whose control he is to be responsible. While industrial training has large possibilities of development at the present time, the most fundamental and permanent educational progress will be in other directions.

The individual point of view of the productivity theory, and the social point of view of functional relationships in industry, lead to different conclusions as to responsibility for success in the acquisition of wealth. The productivity theory holds the individual responsible for his income. The only solution of the problem of low wages is to increase efficiency through education. It fails to recognize that this method can never eliminate those differences in productive possibilities resulting from functional relationships, and hence that this method can never do away with those differences in income for which the individual is not responsible. Further it brings the economists who have been trained in the individualistic theory of an earlier period into opposition to any attempt to control the wage system in the interest of those who may be in positions of low productivity, or who may be unable to protect themselves. To them economic law, as they interpret it, is supreme and any policy of statesmen that runs counter to these laws is worse than useless. We have the repetition of the experience of finding men who should be in the advance of social progress, bravely defending the existing or a passing order.

The functional point of view places the responsibility for differences in income where it belongs, upon the division of labor resulting from the development of the modern industrial system. Social production in which there is a definite relation of parts is a fact. If a few places of high productive possibilities depend upon the existence of many places of low productive possibility, it is a matter for group and not individual responsibility. Human beings that must occupy the places of low productivity deserve consideration as human beings, and an adjustment of wages to meet their reasonable needs is one of the duties devolving upon the



group. It is not right to hold the individual responsible for productivity made necessary by conditions inherent in the life of the group. Here is to be found a theoretical justification for the minimum wage, and for any group control which fixes responsibility upon the group for any disabilities or inequalities resulting from social production.

Many of the economists have not learned to approach their problems from the social point of view, the point of view which is in harmony with present conditions. They still spend a large part of their time explaining the phenomena of competition, when competition in many parts of the industrial system has given way to monopoly and co-operation. They still continue to interpret their material in terms of individual psychology when group life is the logical starting point. When a point of view in harmony with present conditions is attained, popular ideas of success will be materially modified; the inadequacy of the productivity theory as a basis for state action will be recognized; group responsibility for conditions resulting from functional relationships will be substituted for ideals of individual responsibility inherited from an earlier period; and the needs of human beings as members of a group will be provided for, instead of making them suffer as individuals because they happen to draw the smaller occupation prizes in a system of social production.